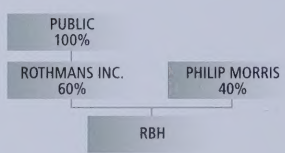
Rothmans Inc.

ANNUAL REPORT
2001

corporate PROFILE

Rothmans Inc. ("Rothmans") is a widely held Canadian public company with common shares traded on the Toronto Stock Exchange under the stock symbol ROC.



The Company's 60%- owned subsidiary, Rothmans, Benson & Hedges Inc. ("RBH"), manufactures and distributes a full range of quality tobacco products for Canadians. FTR Holding S.A. of Switzerland, an affiliate of Philip Morris Incorporated, holds the remaining 40% of RBH.

"Rothmans Inc. reported record net earnings ... for fiscal 2001"

HIGHLIGHTS

- Rothmans Inc. reported record net earnings of $71.5 million, or $2.16 per share, for fiscal 2001 primarily from its 60%-owned operating company Rothmans, Benson & Hedges Inc. That compares to $63.5 million, or $1.92 per share, the previous year.
- Current year earnings are net of rationalization charges of $5.9 million related to downsizing.
- RBH increased its share of the Canadian fine-cut tobacco market to an industry leading 55.3%. Its marketing and sales programs delivered promising increases in some priority growth brands while it experienced continued declines in other older and larger-volume brands.
- RBH reduced its total costs during 2001 by $12.3 million through continued efforts to increase efficiency.
- Rothmans Inc. increased its regular quarterly dividend to $0.30 from $0.25 starting in the third quarter of fiscal 2001.
- The price of Rothmans Inc. shares on the Toronto Stock Exchange increased from $13.75 to $23.45 over the fiscal year.

Year ended March 31 (in thousands of dollars)		2001	2000	1999
INCOME STATEMENT	Sales, net of excise duty and taxes	**$ 538,236**	$ 533,219	$ 532,883
	Earnings	**71,464**	63,457	64,555
FINANCIAL POSITION	Total assets	**$ 403,239**	$ 381,961	$ 349,502
	Shareholders' Equity	**203,276**	167,303	136,910
PER COMMON SHARE ($)	Earnings	**$ 2.16**	$ 1.92	$ 1.95
	Dividends paid	**1.10**	1.00	3.83*
	Shareholders' equity	**6.15**	5.06	4.14
RATIOS	Return on average total capital employed	**55.9%**	49.4%	57.2%
	Return on average shareholders' equity	**38.6%**	41.7%	38.4%
	Working capital ratio	**3.1**	2.5	2.3

* includes special dividend of $2.83 per common share in September 1998


THE ROCK CITY
TOBACCO CO.

to our SHAREHOLDERS

Pictured from left to right
Joe Heffernan
John Barnett

For Rothmans Inc., fiscal 2001 was a year of progress on all fronts as the Company continued to deliver superior returns to our shareholders.

Through our 60%-owned operating company Rothmans, Benson & Hedges Inc., shareholder value continued to be created through marketing and sales programs, ongoing increased profitability through cost-reduction, and a commitment to attractive dividends.

Although it was not reflected in the company's total composite market share of 21.3% at the end of last year, RBH made significant advances in the realignment of its priority brands to improve the company's long-term market position. RBH saw an increase in its fine-cut tobacco market share to 55.3% and encouraging signs of growth in some of its priority cigarette brands, while the downward trend in some older and larger brands continued. RBH recognizes that rebuilding market share is a long-term challenge, particularly in an industry that is prevented from using traditional marketing tools. So, while remaining focused on efforts to regain share in the adult smoker market, RBH has pursued efficiency and structural cost reduction and margin expansion through pricing in order to enhance value.

Rothmans Inc. reported net earnings of $71.5 million for the year ended March 31, 2001, compared with $63.5 million in the previous year, as total revenues increased by $6.9 million to $541.9 million. This increase in revenue was achieved despite the continuing decline in the total Canadian tobacco market since its peak in 1982. The shrinkage of the market was more than offset by selling price increases introduced through RBH's innovative and flexible three-tier pricing strategy. This downward volume trend is expected to continue for the foreseeable future, although the market remains large and potentially highly profitable for efficient companies like RBH. The company reduced total costs by $12.3 million, representing a reduction of 3.6% from the previous year.

On a per share basis, earnings were $2.16, up from $1.92 for fiscal 2000. Rothmans Inc. paid dividends of $1.10 per share over the year, reflecting an increase in the regular quarterly dividend from $0.25 to $0.30 per share in the third quarter.

Rothmans ended the year with a very strong financial position with net cash of $66.1 million.

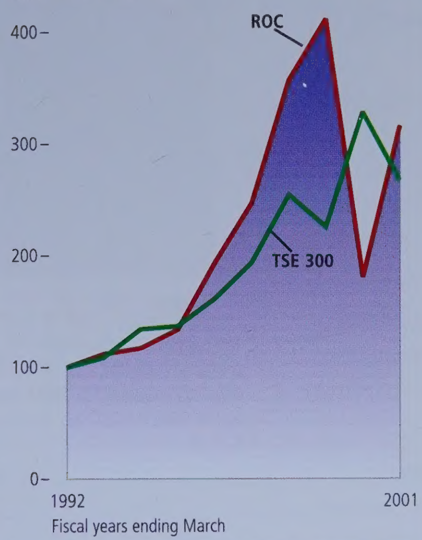
"... the company continued to deliver superior returns to our shareholders."

TO OUR SHAREHOLDERS

The combination of steadily increasing earnings and a high dividend yield, as well as growing investor appreciation for Rothmans shares, led to significant improvement in the share price. At the end of fiscal 2001, shares of Rothmans Inc. traded at $23.45, up 74% from a year earlier. Total ten-year return on Rothmans shares at the end of fiscal 2001 stood at 316.5%, 18.2% higher than the TSE 300 at 267.8%.

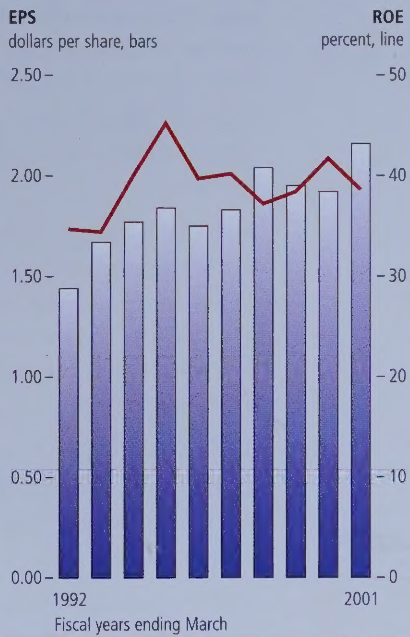
Rothmans Inc. has generated substantial shareholder returns.

Cumulative Total Shareholder Returns
Fiscal 1992 = 100



At the end of fiscal 2001, the index of shareholder returns for Rothmans stood at 316.5% versus 267.8% for the TSE 300.

Rothmans Inc. continues to generate strong profitability and returns.



Over the past decade, earnings per share for Rothmans Inc. have increased by 50% and attained an all-time high of $2.16 in fiscal 2001. Return on equity has averaged 33.9% over the period, 40.1% over the past seven years.

to our SHAREHOLDERS

Industry and Regulatory Environment > RBH conducts its business in one of the world's most restrictive regulatory environments. Although tobacco is a legal consumer product, its use is prohibited in many public venues and its producers are bound by heavy reporting requirements and limited by restrictions on many marketing activities. For example, government regulations have significantly diminished RBH's ability to support a number of sponsorships, including the high-profile and popular Benson & Hedges Symphony of Fire and the Benson & Hedges World Film Festival. As a result, RBH found it necessary to discontinue sponsorship of these events.

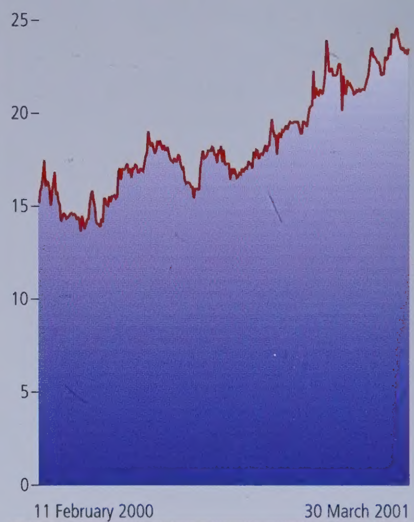
While RBH intends to continue to resist unconstitutional regulatory efforts to restrict its ability to conduct its business, we are convinced that - even in this restricted environment - RBH has the tools, the creativity and the strategy to deliver superior returns for shareholders.

Strategy > Rothmans Inc. and RBH continue to implement strategies designed to maximize long-term shareholder value. The key elements of these strategies are:

Increase market share: This growth remains critical to the development of the company over the next several years. We believe that RBH has chosen the most rewarding approach by focusing its efforts and resources on a smaller number of

The market value of Rothmans Inc. stock increased by 76% during the 14 months since the secondary offering in February 2000.

Rothmans Inc. Common Shares
daily closing price, dollars per share



The underwriters purchased 23,542,818 common shares of Rothmans Inc. at a price of $13.35 per share on February 11, 2000. From that point to the end of March 2001, the share value increased to $23.45.

"... strategies designed to maximize long-term shareholder value."

brands with greater potential for growth. We recognize that this fundamental shift will take time and that the change it requires could be unsettling in the short-term. But we believe that RBH can move adult smokers to its key brands through the marketing initiatives described elsewhere in this report.

Some of the funds formerly used in major cultural and entertainment sponsorships are being redirected to these new initiatives.

Increase profitability: In the longer-term, higher profits will result from market share growth. For now, delivering higher profits for shareholders must come from price increases and structural cost reductions. While many major changes have been made, RBH is continuing to look at more efficient and cost-effective ways to manage its business - such as an increased focus on high volume retailers.

Seize opportunities to create, capture, and deliver value to shareholders: Rothmans is investigating ways to work more effectively with Philip Morris, its partner in RBH, as well as a possible restructuring of RBH's capital.

Rothmans Inc. is also reviewing all possible uses of the surplus cash generated by RBH, including tobacco industry mergers or acquisitions, while maintaining the high dividend yield our shareholders currently enjoy.

In closing, we believe that the initiatives outlined in this report will deliver value. We want to express our appreciation to the entire Board of Directors for their continued guidance, and to all the members of the Rothmans team for rising to the challenges of change during the year.

Joe Heffernan
Chairman of the Board

John Barnett
President and Chief Executive Officer

market POSITION

Rothmans Inc. owns 60% of the second largest tobacco manufacturer in Canada, Rothmans, Benson & Hedges Inc. RBH employs approximately 750 people in manufacturing facilities and offices across the country. The company has been employing Canadians for more than 100 years.

With manufacturing facilities in Québec City, Québec, and Brampton, Ontario, RBH produces a full range of tobacco products, which are sold to adult Canadian smokers across the country. RBH has a 16.8% share of Canada's cigarette market by volume, and 55.3% of the fine cut market. Combined, the company's composite market share – cigarettes and fine cut – stands at 21.3%.

Cigarettes > RBH markets a complete portfolio of well known, quality cigarette, roll-your-own and other tobacco products. The company produces 140 different cigarette products in different sizes, strengths and package formats. As a matter of strategic priority, the company is continuing to narrow its brand focus.

Cigarettes account for 69.5% of RBH sales by volume but, given the higher margins generated by manufactured cigarettes, these products account for 78.6% of total net revenue. RBH's brand families have built real equity with consumers over many decades, and include Benson & Hedges, Craven A and Rothmans. These three are among the top seven selling cigarette brands in the country. Together with Belvedere, Number 7, Mark Ten, Viscount, Belmont, Canadian Classics and Dunhill, these ten brands account for more than 98% of RBH's cigarette sales and 16.8% of the cigarette market. The company owns all of its brand trade-marks in Canada, except Captain Black mini cigars and Dunhill which are licensed to RBH until the years 2009 and 2036 respectively.

RBH's major competitor has over 70% of the Canadian cigarette market, and its two major brands alone account for more than 60% of total industry sales.

RBH remains a significant competitor in a non-cyclical industry which offers attractive fundamentals: relatively stable consumer demand, significant barriers to new competition and high margins. However, RBH recognizes that it must halt the long term erosion of its cigarette market share, and has taken positive steps to achieve this.

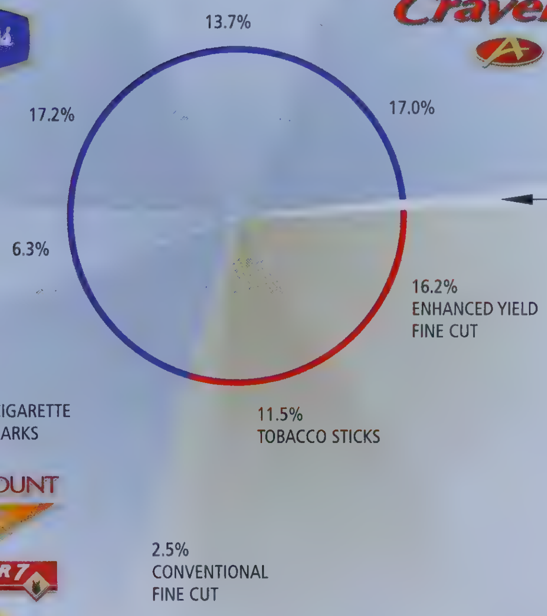
Increasing its market share continues to present a significant challenge to RBH. Since the company's cigarette share is divided among 10 main brand franchises, these brands individually have relatively small market shares. Some have aging consumer profiles and declining share trends. In addition, the difficulty of convincing smokers to switch to RBH brands or launching new products to increase market share is increased by the regulatory environment, which effectively bans tobacco product advertising. However, RBH is confident that recent initiatives can reverse the declining trend in market share.

Fine Cut > RBH improved its position in the fine cut segment during the past year, increasing its market share from 54.0% to 55.3%. Total sales for the year amounted to 3.3 billion equivalent sticks in fiscal 2001, virtually the same as last year in an industry segment which declined by 3.5%.

> *"RBH improved its position in the fine cut segment during the past year ..."*

RBH PRODUCT FAMILIES

CIGARETTES
comprise approximately 69% of RBH's sales, with 10 brands accounting for over 68%.



FINE CUT PRODUCTS
comprise 30% of RBH's sales, and are marketed utilizing the full range of RBH trademarks.

OTHER TOBACCO PRODUCTS
including imported pipe tobacco and small cigars comprise less than 1% of RBH's sales.

market POSITION

RBH offers the most complete range of fine cut products in the market, including high yield tobacco tubs and pouches, a variety of tobacco stick kits and conventional loose tobacco products. A long-standing strategy of product innovation in this area has enabled RBH to anticipate and respond effectively to new competitive product entries and intensive promotional activity at retail.

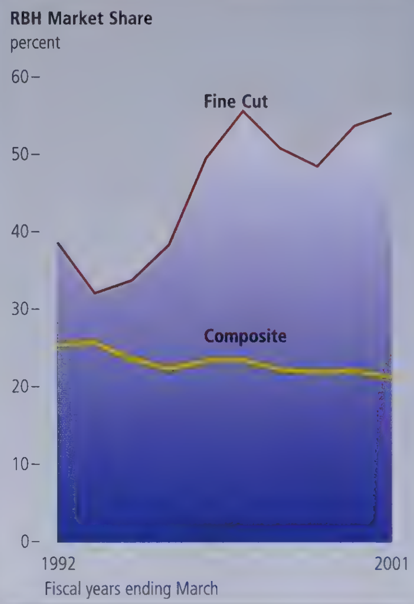
Fine cut margins are lower than tailor-made cigarettes, in part due to the higher relative cost of the newer high yield tobacco and tobacco stick products. However, the company took steps, primarily selling price increases, that increased margin contribution from the category by 12.1% over the previous year.

Imported Pipe Tobacco > RBH accounts for approximately one-half of all pipe tobacco sold in Canada. During the year, RBH pipe tobacco sales decreased 9% from fiscal 2000 in an industry segment estimated to have declined by approximately 20%. These declines are due in part to increasing restrictions as to where smokers are able to enjoy a pipe.

RBH's wide selection of world class pipe tobaccos, including Captain Black, Sail, and Erinmore, offer an excellent variety of tastes to pipe smokers. Nevertheless, this represents one of the company's smallest categories, and accounts for less than 1% of RBH volume.

Imported Cigars > Having secured ongoing rights to the Captain Black cigar line in Canada, RBH continued to expand national distribution of mini tipped 'pipe tobacco' cigars, resulting in an increase in market share from approximately 25% last year to 40% this year. Like the company's other imported products, Captain Black cigar margins are subject to currency exchange fluctuations. Despite this, RBH's margin contribution from the category increased during the year.

Achievement of a leading position in the fine cut segment has helped RBH maintain a relatively stable composite market share over the past six years.



RBH has increased its share of the fine cut market segment from 38.6% to 55.3% over the past decade. Since 1995, fine cut gains have virtually offset cigarette share declines, resulting in relatively stable composite market share performance.

"... focus continues to drive virtually all strategic and tactical decisions."

STRATEGY AND IMPLEMENTATION

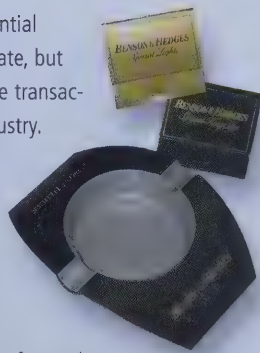
Pictured from left to right
Michael Frater
Director Finance, RBH
Paul Jewer
Vice President Finance and Administration, RBH

Rothmans Inc. has maintained a strong track record of financial performance and superior long term returns for shareholders. RBH is committed to delivering profitable results by stabilizing market share and containing costs which will continue to increase shareholder value.

Over the past year RBH has made strides on cost containment and has improved market share in a number of segments. RBH remains committed and focused on these core objectives.

Overall Strategy > The overall strategic direction established in 2000 was all about focus. In 2001 RBH will stay the course and maintain the focus that is essential to the objective of increasing market share. That focus continues to drive virtually all strategic and tactical decisions. RBH's focus is now on core brands, key distribution customers and creative marketing initiatives. Resources, talent, initiatives, and efforts are directed to where they will have the maximum effect.

The challenge of maximizing long-term shareholder value is clearly linked to RBH's success in increasing market share and reducing costs. In addition to these fundamental imperatives, Rothmans will examine potential acquisitions, where appropriate, but would consider only accretive transactions within the tobacco industry.



In-bar tobacco accessories

Marketing > Like any successful consumer goods business, RBH focuses on marketing and sales programs.

RBH's marketing activities are focused solely on switching adult smokers to its products.

It will continue to focus on key brand franchises that have promising potential for market share growth. RBH is emphasizing the development of new products that satisfy identified consumer needs. It is also focused on the most effective ways to make products available to adult consumers. Overall, RBH intends to slow and ultimately reverse the long term decline in its cigarette brand portfolio by focusing resources on increasing the market share of its most promising individual key brands.

Premier Series Sponsorship: Featuring preview showings of top-flight films.

RBH has redirected its marketing resources behind a smaller number of key brands with the best growth potential. The highest priority brand is Benson & Hedges across Canada. In Atlantic Canada, Belvedere has already built a significant share. Canadian Classics is growing in the West, and in Ontario and Québec Craven A is RBH's secondary brand. Belmont Milds, a growing brand, will be increasingly supported through expanded distribution at the retail and bar level.

strategy and IMPLEMENTATION

Pictured from left to right
Franco Salituro
Vice President Marketing, RBH
Eric Massicotte
Senior Associate Marketing, RBH

The RBH management team is moving aggressively to make innovative use of the limited marketing opportunities available within the restrictions imposed by its own responsible marketing policies and the regulatory environment.

An important recent marketing initiative is RBH's program to develop an emerging distribution channel through bars, pubs and nightclubs. Currently, RBH has exclusive distribution rights in a significant number of adult venue establishments across the country. Many of these represent the top venues in the country. This program enables the competitions' customers to purchase our products. Over the coming year, the program will be expanded and solidified.

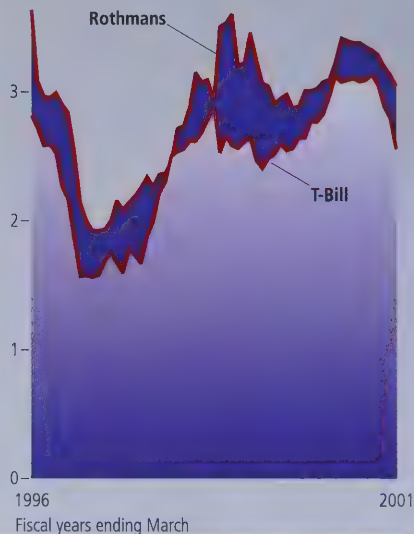
RBH will also apply strategies to develop mutually advantageous relationships with selected venues in this area, as we have done with retailers across Canada.

RBH supplements this strategy of building long-term beneficial relationships with key players in the hospitality industry, through the "Business Edge" program which provides access to a wide range of goods and services to the bar and hospitality industry.

During the year, RBH took the initiative to introduce tiered pricing to the cigarette market, charging more for king size and 100 millimeter than for regular length cigarettes. When prices were again increased in November 2000 and April 2001, RBH maintained these price differentials, confirming our strategy of pricing based on cigarette length. This strategy provides additional flexibility to actively manage revenues.

The after-tax performance of Rothmans investments is favourable.

Investment Returns
monthly, percent



Rothmans Inc. invests surplus funds in conservative vehicles with attractive yields. Over the past five years, Rothmans after-tax performance has surpassed the Canadian three-month treasury bill rate by 41 basis points on average.

"... RBH took the initiative to introduce tiered pricing to the cigarette market ..."

STRATEGY AND IMPLEMENTATION

Bob Verrall
General Manager
Tobacco Products Division, RBH

In the third quarter of the 2001 fiscal year, RBH announced the discontinuation of its sponsorship of the Benson & Hedges Symphony of Fire and the International Film Festivals. This action was made necessary by the restrictions imposed under the Tobacco Act, which came into effect on October 1, 2000. Associated efforts have been redirected to other RBH marketing activities, such as the National Bar Program. Early signs of success gained from this latter initiative are encouraging.

Fine Cut Products > RBH continues to develop innovative products to provide roll-your-own smokers with the best quality and value. This should ensure the company maintains its leadership of the fine cut segment. An example of this was the introduction of 'Rolls 70% More Special' fine cut in 80-gram formats to Ontario and Québec markets in May 2001, providing a price point advantage over all competitive offerings.

Recent tobacco tax increases narrowed previous tax differentials between some fine cut products and manufactured cigarettes in several provinces, placing additional pressure on fine cut margins. However, having attained product leadership in the fine cut category, RBH has an opportunity to gain disproportionately as the market adjusts to the resulting new retail price environment.

Sales > RBH sells its tobacco products through a highly efficient wholesale distribution infrastructure to approximately 36,000 retail outlets across Canada. More than 90% of domestic tobacco products are sold through about 24,000 retailers.

A large portfolio of stock keeping units, combined with the complexity of securing distribution breadth and effective product exposure within this expansive retail network, represent a significant area of challenge for RBH.

To help meet this challenge, the company has developed a sophisticated, proprietary sales management system to optimize the deployment of its sales force. Powerful pen-based mobile computers provide members of RBH's sales force with access to the information they need to manage retail accounts effectively. The sales force makes more than seven thousand in-store sales calls per week, and transmits market and performance data to the central sales planning department nightly. These tools have enabled RBH to redeploy investment from lower volume stores

Big DJ-Small Club: Sponsorship of entertainment events featuring world-class talent

strategy and IMPLEMENTATION

Pictured from left to right
Ron Funk
Vice President Sales, RBH
Danielle Peeters
Director Sales Services
& Duty Free, RBH

to more valuable retail customers, and to achieve better distribution than would be expected from the company's share of market.

Competition for in-store display space continues to become more intense. To help strengthen the company's relationships with key retailers, RBH offers preferred clients access to its proprietary Retail Services Institute (RSI), which provides these selected retailers with access to a wide range of goods and services. The combination of RSI contractual relationships and value-added strategy serves to strengthen the partnership between RBH and its retailers.

On July 1, 2000, RBH introduced a sales management program for direct tobacco wholesale customers. A key element of this program is an information system which captures data on wholesalers' inventory and sales. A pilot program in Western Canada has been very well received by wholesalers in that region, and a national rollout is underway with full implementation planned for September 2001.

This powerful information management system will enable RBH's sales management to identify areas of over and under-development, and to focus sales force efforts for maximum effectiveness. It will also enable RBH management to monitor the effectiveness of specific initiatives.

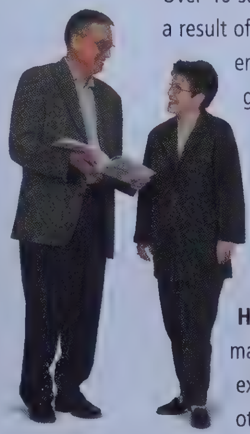
This information system provides opportunities for improved use of the sales force, building on the consolidation of RBH's regional sales organization implemented during the past two years. Cost savings resulting from these initiatives has begun to enhance profitability in the current fiscal year.

Cost Containment > Historically, RBH has been a strong generator of free cash flow, and it expects this to continue with the help of cost reduction programs. RBH completed $25 million worth of major upgrades to both manufacturing plants over the past several years. Annual capital requirements are projected to continue to approximate depreciation expenses over the next several years. The Québec plant's modern, efficient equipment is ideally suited to production requirements and provides the flexibility needed to manufacture RBH's complex portfolio of fine cut and cigarette products.

Consistent with its commitment to cost containment, during the year RBH took steps which will result in reducing future annual operating costs by $7.7 million.

RBH's bar vending and storage units requiring age verification before activation

"... a strong generator of free cas flow ..."



Pictured left to right
Jean-Pierre Suys
Vice President Human Resources, RBH
Raymonde Bolduc
Director Compensation & Benefits, RBH

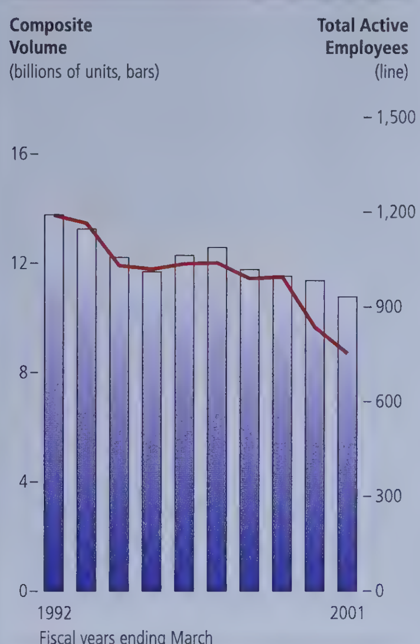
Over 40 sales force positions were eliminated as a result of our strategic review of the retail environment. Further savings were generated by consolidating office space in fewer locations and more efficient use of space in remaining locations. Redundancy costs were charged to fiscal 2001, but the operating cost savings will continue.

Human Resources > RBH's senior management team has extensive experience in the tobacco industry and other consumer products. During fiscal 2001, Paul Jewer was appointed Vice President Finance and Administration, and Faryl Hausman was named Vice President General Counsel. The executive team is supported by a committed workforce of 414 salaried and 337 hourly employees. With the successful implementation of succession planning, RBH is structured to be flexible and responsive to change over the long term.

RBH's work environment encourages open communication. It can attract and retain talented employees, and challenge them to perform and grow. It offers competitive compensation and recognizes individual and group contributions to achieving profit and market share objectives. Management's short and long-term incentive plans are based on attaining specific results linked to the interests of shareholders.

RBH has management development programs and succession plans to encourage employees to reach their full potential and to ensure that the company develops management talent for the future. High-potential employees are identified for accelerated development. Ongoing activities include Managing for Success, a recently enhanced program to help employees and their

Reductions in RBH's complement over the past two years highlight management's determination to reduce costs in line with business realities.



During the past two years, RBH has eliminated a total of 166 salaried and 20 hourly positions. The increasingly restrictive regulatory environment imposed by government is directly linked to the employee reductions announced in fiscal 2001. Redundancy costs of $10.7 million were absorbed in fiscal 2000 and $5.9 million in fiscal 2001. This aggressive program has been undertaken to maintain balance between employee productivity and sales volume declines, and to reduce future operating costs.

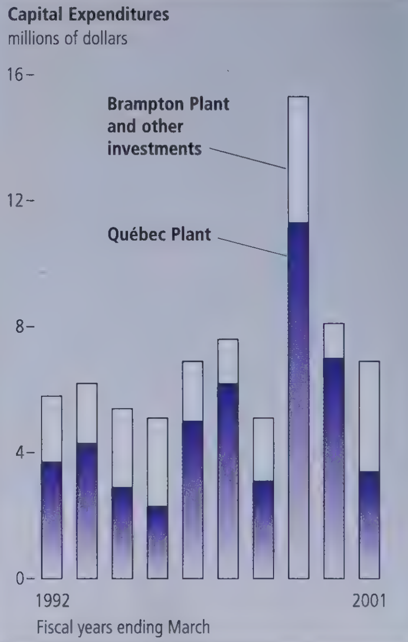
strategy and IMPLEMENTATION

Pictured left to right
Warren Finlay
Vice President Operations, Leaf and R&D, RBH
Carmen Bifolchi
Manager Printed Packaging & Merchandising, RBH

managers agree on individual objectives for the year within a set of established values, and to measure accomplishments. A 360° Feedback program has been introduced to identify areas of competence for further development. RBH's intranet has matured to the extent that employees throughout the company rely on on-line access to corporate information and communications, updates of business performance and the status of pension and benefits programs. The employee benefits program has recently been upgraded to incorporate expanded choice combined with an element of shared responsibility to help contain costs. The Vision Plus Program rewards employees for creative business ideas that can improve business results. A Business Tour program continues to widen employees' understanding of all aspects of the business, as well as fostering team building and solid internal working relationships.

New Product Development > Development of new products continues to be an important element of RBH's marketing strategy. For example, brand extensions have been added for Benson & Hedges and Belmont Milds. Fine cut innovations will continue but, having achieved a leading position in this segment, RBH will focus much of its new product development efforts on cigarettes to build share in that higher-margin segment of the market.

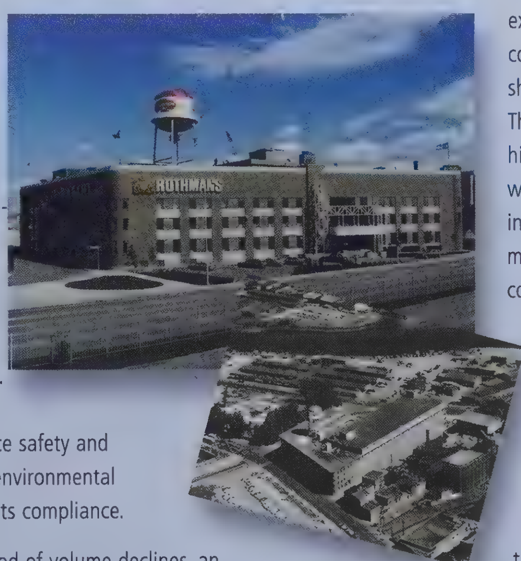
Major upgrades to RBH's manufacturing plants have been completed over the past several years at a total cost of approximately $25 million.



Production facilities now provide the flexibility needed to manufacture RBH's complex portfolio of cigarette and fine cut products. Manufacturing costs are now very cost competitive, and capital expenditures are projected to be limited to the level needed to maintain the productive capacity of RBH's physical assets.

Manufacturing > RBH's main manufacturing facility has been located in Québec City for more than one hundred years, but it houses a modern, efficient tobacco manufacturing operation that produces high quality cigarette and fine cut products at very competitive manufacturing costs.

The Québec City plant's production equipment and facilities have the capacity for foreseeable production requirements and, if required, can be expanded. It is certified to the ISO9002 standard. RBH maintains excellent workplace safety and conducts regular environmental audits to confirm its compliance.



Québec Manufacturing Facility

Throughout a period of volume declines, an increasingly competitive industry environment and brand packaging proliferation imposed by government marking, the plant has maintained a stable production cost structure. During the past several years, RBH has invested to build a world-class manufacturing and distribution organization that is efficient and flexible. For almost 20 years, the Brampton plant has used leading technology to produce high yield tobacco blends for cigarette and fine cut products, providing RBH with a strategic advantage. Continued investments in process technology mean the company can produce superior quality fine cut blends and continue to increase its leading share in this market segment. Information technology now plays a critical facilitating role in the entire manufacturing effort, ranging from initial materials and production planning and execution, machine process control, through to product shipping and distribution. The company maintains a highly skilled technical workforce and continues to invest in building and machinery to remain competitive in the Canadian tobacco market. With the major portion of the equipment upgrade program now complete, the future focus will be on maintaining effective manufacturing capabilities through regular investments.

RBH enjoys a cooperative relationship with its plant union Local 261-T, of the Bakery, Confectionery, Tobacco and Grainmillers International Union and is in the second year of a five-year labour agreement which provides for increased labour flexibility in return for more flexible working hours. RBH is in an excellent position to continue to improve productivity and to manage a complex product mix efficiently.

strategy and IMPLEMENTATION

Every year RBH's two plants produce, package and ship more than 11 billion cigarettes and equivalents to public warehouses in Halifax, St. John's, Montreal, Toronto and Calgary. From there, products are distributed to wholesalers and to 36,000 retail outlets nationwide.

RBH has earned a strong reputation for its logistical management. The centralized sales order desk at the Toronto head office helps the company maintain high service levels and build on customer relationships.

In fiscal 2001, RBH spent more than $53 million on tobacco leaf purchases, making it the company's single most significant annual cost. Canadian growers provided more than 95% of this tobacco. RBH remains deeply committed to maintaining a sound and viable Canadian tobacco growing industry. It pursues this objective through its membership on the Tobacco Advisory Committee composed of representatives of growers, manufacturers and government.

Information Technology > RBH has continuously improved its information technology architecture during the past several years. Management believes information technology is a core, enabling component within its full range of business processes.

In addition to developing its state-of-the-art Sales Environment Management System, RBH has implemented key components of SAP and plans to migrate its Sales & Distribution, Accounts Receivable and Human Resources systems to SAP over the coming two years. When completed, additional productivity and cost savings are expected. The company continues to monitor e-business developments, in order to be in a position to deploy these technologies in the future, given sufficient business justification.

Cosmic Sessions: Special adult only music sponsorship events

"The legal and corporate affairs environment continues to represent a significant challenge ..."

LEGAL AND CORPORATE AFFAIRS

Bob Carew
Executive Vice President &
xecutive Vice President Legal
and Corporate Affairs, RBH

The legal and corporate affairs environment continues to represent a significant challenge facing the tobacco industry worldwide.

Government legislation and regulation in Canada represents an area of significant difficulty for the industry and imposes significant costs. RBH does not believe that the restrictions and requirements of government legislation are effective as a means of achieving the stated objectives of the legislation. For that and other reasons, RBH is participating in an industry constitutional challenge of the federal Tobacco Act which was enacted in 1997 following the successful challenge of the predecessor legislation, the Tobacco Products Control Act. The constitutional validity of legislation enacted in British Columbia purporting to allow the province to recover health care costs is also being challenged by the industry. These industry challenges, which have already been underway for several years, are not expected to reach a conclusion in the near future, underscoring the difficulty faced by the industry in attempting to respond to government initiatives in a commercially expeditious manner.

Similarly, lawsuits and other actions against the industry continue to proceed. Although to date no decisions even at a trial level have been issued in Canada, it is expected that other legal claims will arise in the future which will occupy even more of RBH's resources.

RBH's Legal and Corporate Affairs Department is responsible for RBH's responses to these challenges. This mandate involves a number of initiatives in order to achieve RBH's objective of ensuring that appropriate responses are implemented in respect of legislative restrictions and legal claims brought against the company. In particular, the Legal and Corporate Affairs Department undertakes the following:

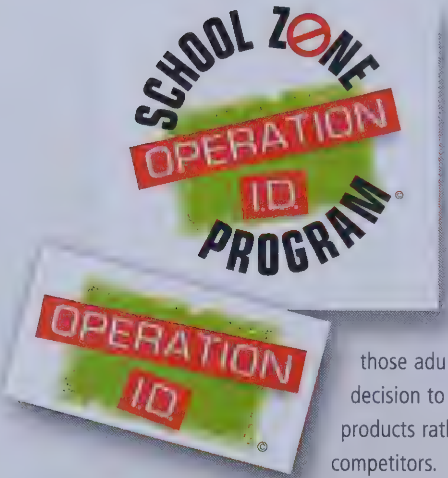
- responding to government initiatives for new legislation and amendments to current legislation,
- coordinating RBH's legal defence to claims brought against the company,
- participating in industry challenges of legislation which places unwarranted, unnecessary and unconstitutional restrictions on the manufacture and sale of its product, and
- ensuring that the company's operations are in compliance with legal and regulatory requirements.

Faryl Hausman
Vice President General
Counsel, RBH

views
INDUSTRY ISSUES

Despite the legal status of tobacco as a consumer product, there is considerable controversy regarding the manufacture and sale of these products in the Canadian market. RBH's views on several issues that the Canadian tobacco industry faces are summarized below:

Tobacco and youth > RBH is adamantly opposed to the smoking of tobacco products by those under the age of majority. Smoking is an adult behaviour for those adults who choose to smoke and who understand the associated health risks.



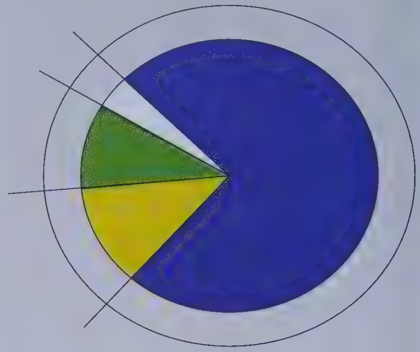
An initiative of Canada's Tobacco Companies and the Canadian Coalition for Responsible Tobacco Retailing

Our marketing practices are designed to encourage only those adults who have made the decision to smoke, to select RBH products rather than those of our competitors.

RBH supports programs, such as Operation ID and School Zone, which are designed to deny access of tobacco to individuals below the legal age by supporting retailers in asking customers for proper proof of age identification.

Governments comprise the largest stakeholder group in the tobacco industry, with 72% of the value added by RBH distributed to governments in the form of taxation.

Distribution of RBH Value Added
percent of total



Reinvestment	**5%**
Employees	**10%**
Providers of Capital and other	**13%**
Government	**72%**

Value added is a measure of the wealth the company has created by adding to the cost of materials, products and services purchased. Total wealth created amounted to $702.1 million in fiscal 2001, a 0.9% increase from the $696.0 million created in fiscal 2000.

The chart summarizes how the total wealth created by RBH in fiscal 2001 was shared by employees in the form of salaries, benefits, and pensions; by providers of capital such as shareholders and financial institutions in the form of dividends, interest and the like; and by governments in the form of taxation – including federal excise duty and taxes, corporate income and capital taxes and payroll and municipal taxes. Distribution takes into account amounts retained and reinvested in the company for replacement of assets and further development of operations.

> *"Governments comprise the largest stakeholder group in the tobacco industry ..."*

OUR VIEWS ON INDUSTRY ISSUES

Tobacco Taxes > Tobacco taxes can exceed 73% of the purchase price of each package of cigarettes, depending on the jurisdiction of sale. Federal and provincial governments are the senior financial partners of the Canadian tobacco industry collecting over $5 billion, which amounts to eight to ten times the combined after-tax profits generated by the three major manufacturers.

RBH is not opposed to reasonable, responsible and gradual increases in tax rates on the products it manufactures. However, RBH believes and is concerned that large or sudden increases to the existing high tax levels will lead to product smuggling from more favourable tax jurisdictions.

Pictured left to right
David Désy
Manager Public Affairs, RBH
John McDonald
Director Public Affairs, RBH

Tobacco Smuggling > RBH has consistently opposed tobacco smuggling and, contrary to allegations made by anti-tobacco activists, has never been involved with contraband tobacco products. RBH has worked with governments through the years to deal more effectively with the cross border trade in tobacco products.

Smoking and Health > That there are health risks associated with smoking, has been widely known for decades. RBH acknowledges these risks and believes that the choice to smoke is made with full awareness of such risks. Information on these risks is widely available and warnings have been prominently displayed on tobacco product packages for approximately 30 years in Canada.

Regulatory and Legal Environment > The Canadian tobacco industry faces some of the most severe legislative restrictions in the world. A ban on tobacco product advertising, severe restrictions on sponsorships, the world's largest health messages and onerous product and corporate reporting requirements are examples of overly excessive regulations.

Litigation > Although the current litigious environment in which tobacco companies operate is likely to become more onerous in the future, RBH believes that the legal claims brought against the Company to date are unfounded and will therefore continue to be vigorously defended. Likewise, government initiatives designed to place further unconstitutional and unnecessary restrictions and regulation on the industry will also continue to be challenged by RBH. RBH believes that the Tobacco Act and legislation enacted by provincial governments purporting to allow the recovery of health care costs to be unprecedented and unconstitutional invasions of RBH's rights to operate its business.

management's discussion and ANALYSIS

Management's Discussion and Analysis of Financial Conditions and Results of Operations, or MD&A, provides shareholders with a review of significant developments in the Company's financial performance in the fiscal year ended March 31, 2001 compared with the previous year. It also discusses factors that could affect future performance. This discussion involves risks and uncertainties that may cause actual results to differ materially from those expressed or implied.

Throughout this MD&A, "Rothmans" and "the Company" refers to Rothmans Inc., "RBH" and "the company" refer to "Rothmans, Benson & Hedges Inc.", which is 60%-owned by Rothmans Inc. and "EBITDA" refers to earnings before interest, taxes, depreciation and amortization, a key measure of the Company's financial performance.

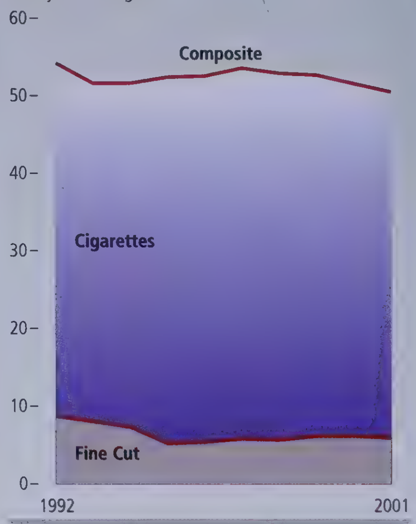
The key factors discussed in the MD&A include:

- increased revenue and net income for fiscal 2001 at RBH and Rothmans,
- RBH's composite market share performance,
- significant initiatives towards cost containment at RBH,
- increased cash flow at RBH, and
- developments in the regulatory, taxation and legal environment.

The Company > Rothmans participates in the Canadian tobacco products industry through its ownership interest in 60%-owned operating subsidiary Rothmans, Benson & Hedges Inc. The remaining 40% of RBH is owned by an affiliate of Philip Morris Incorporated. Effectively, the results of Rothmans reflect those of RBH after minority interest plus income generated by the Company's cash reserves, offset by the costs associated with Rothmans as a public company.

Industry volume grew moderately in the mid-1990s, but appears to have returned to its long-term decline trend following fiscal 1997.

Industry Volume
billions of units and equivalent units
fiscal years ending March



Composite industry volumes declined at an annual rate of 3.3% between fiscal 1983 and 1993. Since 1997, composite volume has decreased at 1.5% per year. Over the next three years, the industry decline rate is projected to accelerate to 2.3% per year. Fine cut products peaked at 16.1% of total industry volume in 1992, declined sharply with the cigarette tax rollback in 1994, and have since climbed back to 11.7%.

"... increased revenue and net income for fiscal 2001 ..."

RBH is the second largest tobacco company in Canada with 21.3% composite share of the market and a majority position in the fine cut segment.

Rothmans is the only widely held Canadian public company, with interests exclusively in the tobacco industry. Its shares are listed on The Toronto Stock Exchange under the symbol ROC.

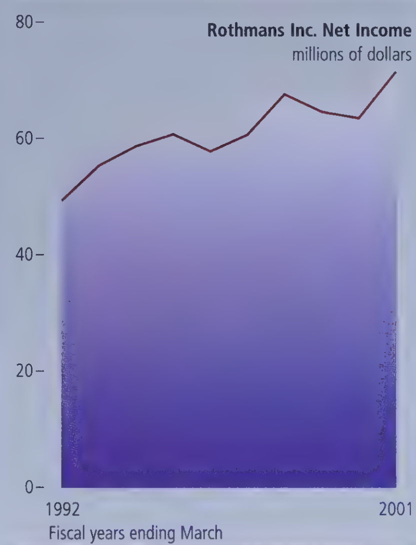
Industry Overview > The Canadian tobacco industry presents a relatively stable environment, with gradually declining sales volumes. Over the next three years, total composite volumes are expected to continue to decline at an average annual rate of approximately 2.3%.

RBH estimates that there are approximately six million Canadians over the age of 19 who choose to smoke. This total has been relatively constant over the past decade, with population increases offsetting a declining rate of smoking incidence.

In part, the stability of the Canadian tobacco industry can be attributed to the current regulatory environment. The government ban on advertising increases the difficulty of introducing new products to the market. Government health warnings on packaging, product marking requirements and product testing and reporting requirements, impose a high cost of compliance. These barriers to entry effectively preclude international competition in the Canadian market.

In addition, competition based on price has been rendered ineffective by tobacco taxes which far exceed production costs and manufacturers' margins. Tobacco taxes account for as much as 73.4% of the consumer's cost of a package of cigarettes, up from 72.0% last year. As a result, even a 20% reduction in the manufacturers' net

Rothmans achieved record earnings in fiscal 2001.



Consolidated net income for Rothmans Inc. grew from $49.3 million in fiscal 1992 to a record $71.5 million in fiscal 2001, attaining an annual earnings growth of 4.2% over the past decade. These results include costs associated with recent downsizing activities and with new pack designs imposed by government regulations. Without these charges, net income would have increased to $73.6 million for the year.

management's discussion and ANALYSIS

selling price to wholesalers would reduce consumer prices by less than 5.0% in a high tax jurisdiction such as British Columbia.

Rothmans Inc. Results > Rothmans Inc. consolidated sales, net of excise duty and taxes, for the year ended March 31, 2001 were $538.2 million, a $5.0 million increase from the previous year.

The Company's consolidated earnings for the year totalled $71.5 million, $8.0 million higher than in fiscal 2000. Earnings per share were $2.16 compared with $1.92 in the prior year.

Investment income from cash reserves at $3.6 million was higher than the previous year's $1.7 million. This was the result of higher average cash balances throughout the year.

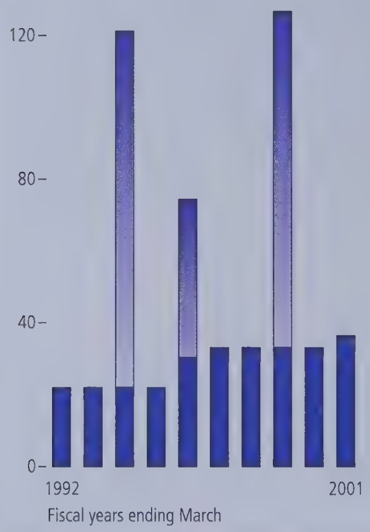
Income taxes expense stood at $86.6 in fiscal 2001. The Company's effective income tax rate decreased to 42.2% from 43.1% as a result of the corporate income tax reductions by federal and provincial governments. Minority interest at $47.4 million increased from $42.7 million in fiscal 2000.

The Company paid dividends of $1.10 per share during the year, reflecting an annualized $0.20 per share increase that became effective December 17, 2000.

RBH Results > Net sales were higher than the previous year despite lower total shipments. Industry price increases and the introduction by the company of a tiered pricing strategy for domestic cigarettes based on length more than offset lower overall unit sales.

Rothmans shareholders have received a high dividend yield over the past 14 years.

Regular and Special Dividend Payments
millions of dollars



Rothmans Inc. generates sufficient funds from operations to capitalize on strategic investment opportunities for increased market share and profitability. Since the formation of RBH, surplus funds have been returned to shareholders through increases in the regular dividend rate combined with a series of special dividends. The largest of these was paid in June 1987 following the sale of the Company's interest in Carling O'Keefe Limited.

Dividends to preferred shareholders continued until all outstanding preferred shares were redeemed in 1992 at a cost of $22.6 million. On an annual basis, regular dividends have increased from $0.62 per share in fiscal 1992 to $1.00 per share in fiscal 2000, and were increased to $1.20 during fiscal 2001. Total regular dividend payments increased from $8.8 million in fiscal 1988 to $36.4 million in fiscal 2001.

Combined dividends paid over the past decade total $524 million, or $15.85 per share. Dividend yield has averaged 7.8% over the period.

As of March 31, 2001, Rothmans Inc. surplus funds have grown to $96.5 million.

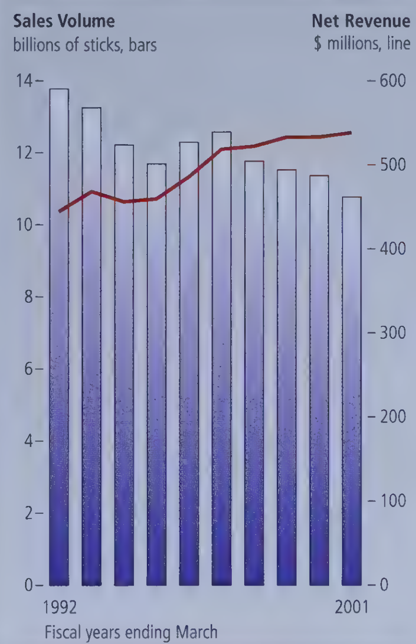
"Combined dividends paid over the past decade total $524 million, or $15.85 per share."

RBH's composite market share fell from 22.0% in fiscal 2000 to 21.3% in fiscal 2001, as cigarette losses more than offset gains in a number of segments. Continued declines by the Rothmans and Craven trade-marks decreased RBH's market share in domestic cigarettes from 17.5% to 16.8%. In addition to declines from aging smoker profiles, we believe that these franchises have been impacted disproportionately by the growth of competitive discount cigarettes, particularly in the Québec market. RBH's brand rationalization program led to the decision to withdraw two small, under-performing brands from the marketplace. This, combined with a one-time decrease of in-store inventory which resulted from a deliberate move to more effective retail display units, contributed to the cigarette share decline.

On the positive side, RBH's leading share of fine cut tobacco products continued to increase, moving from 54.0% to 55.3%. In response to strategic focus on the Benson & Hedges trade-mark, market share for this key cigarette franchise has increased during fiscal 2001. As well, Belmont cigarettes have continued to gain share in the significant Toronto market. Cigarettes and fine cut tobacco products account for 69.5% and 30.0% of RBH's volume, translating to 78.6% and 18.9% of revenues respectively.

Capital investment at $6.8 million was somewhat lower than the $8.1 million spent in fiscal 2000. Fiscal 2001 saw the completion of a multi-year program directed towards the upgrading of machinery and equipment to increase efficiency. Current year expenditures returned to the historical level required to maintain manufacturing equipment and facilities at the plants in productive condition.

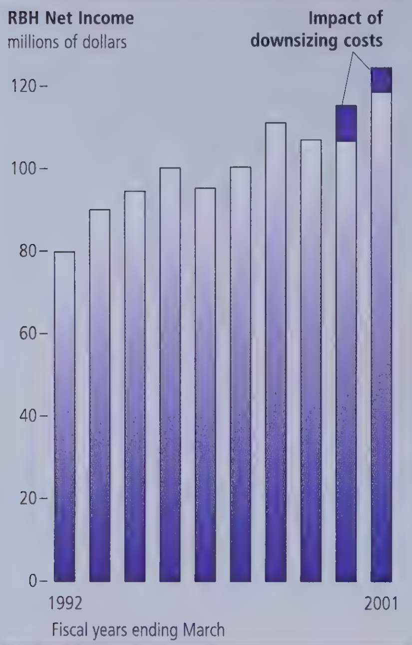
RBH revenues continue to increase despite decreasing volumes.



Since fiscal 1992, composite RBH sales volume has declined at a compound annual rate of 2.3% due to diminishing industry volumes, decreasing market share and a shift in product mix towards lower-priced fine cut products. Despite this, net sales revenues have grown by 2.7% per year over the period.

management's discussion and ANALYSIS

RBH net income reached a record high in fiscal 2001, including redundancy costs.



RBH net income grew to $118.6 million in fiscal 2001, an increase of $11.9 million (11.1%) over fiscal 2000 and 49% above the $79.8 million generated in fiscal 1992. Over the past decade, earnings have grown at an annual rate of 4.5%. Excluding redundancy costs, net income for the year amounted to a record $122.0 million.

In addition to redundancy costs, during the past three years RBH has had to absorb a total of $5.5 million to cover the incremental costs associated with new government packaging regulations.

The Company's income before income taxes and minority interest for the year was $205.5 million, an increase of $19.0 million or 10.2% from the $186.5 million generated in the previous year. In addition to the contribution from RBH's higher selling prices, income increased due to RBH's lower operating costs resulting from the fiscal 2000 restructuring. Efforts continue to further decrease RBH's operating costs. Facilities rationalization and additional corporate support infrastructure adjustments by RBH undertaken this year are expected to result in future annual savings of $7.7 million.

During fiscal 2001, RBH improved its EBITDA margin from 38.2%, before downsizing costs, to 39.6% or an increase of 3.7%.

Liquidity and Capital Resources >

Cash flow

The Company's consolidated operations generate significant cash resources. These are sufficient to fund capital expenditures, dividends to shareholders and, still accumulate growing cash reserves.

RBH continued to generate significant cash from operations, amounting to $149.6 million in the fiscal year.

Cash resources

Cash and short-term investments of $96.5 million and borrowings of $30.4 million represent a mix of cash reserves in Rothmans Inc. and short-term borrowing by Rothmans, Benson & Hedges Inc. respectively. RBH has a commercial paper

program, with investment grade ratings of R-1 (low) for short-term and A (low) for long-term. The Dominion Bond Rating Service recently re-confirmed these ratings.

Cash management is conducted under strict rules, which do not allow co-mingling of investments and borrowings of the two companies and forbid the use of financial instruments for speculative purposes.

Dividends

Total dividends paid by Rothmans during the year amounted to $36.4 million or $1.10 per share, compared with $33.1 million or $1.00 per share in fiscal 2000. This reflected an increase of the regular annual dividend rate to $1.20 per share effective December 17, 2000. For more than a decade, surplus funds have been returned to Rothmans shareholders through increases in the regular dividend rate combined with a series of special dividends.

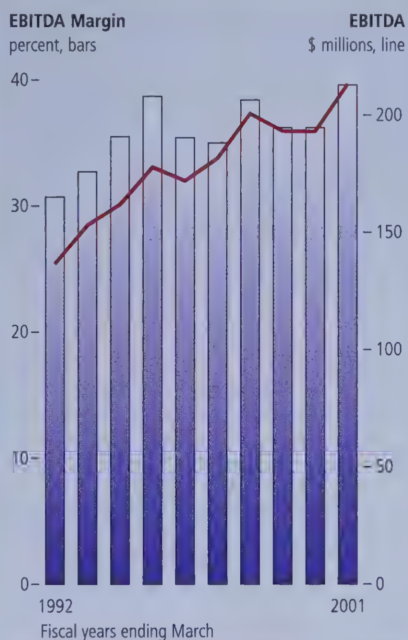
The Company expects that cash from RBH's operations, combined with existing credit facilities and RBH's commercial paper program, will continue to be sufficient to meet financing needs of RBH's business during the fiscal year 2002.

The Company has a strong balance sheet with no long-term debt, and therefore has the opportunity to consider adding leverage in order to increase shareholder returns. Acquisitions which strengthen Rothmans position in the tobacco industry may also be considered.

Normal Course Issuer Bid

On February 1, 2000, the Company obtained approval from The Toronto Stock Exchange to proceed with a normal course issuer bid to purchase up to 1,653,000 Common Shares during

RBH achieved record EBITDA in fiscal 2001, measured in both percent margin and $ million terms.



EBITDA has become one of the key indicators of profitability and financial health for public corporations. Since fiscal 1992, RBH's dollar EBITDA has grown at a compound annual rate of 5.1%. Over the past eight years, EBITDA margin has averaged 36.9%.

management's discussion and ANALYSIS

the twelve month period commencing February 3, 2000. Any Common Shares purchased were to be cancelled. As of February 2, 2001 the date on which the normal course issuer bid terminated, the Company had not acquired any shares under the bid.

Risk Management > RBH has continued the enterprise-wide risk management approach that was established last year. The Risk Management Committee, which is comprised of cross functional management, has continued to meet to discuss and manage the strategic risk issues impacting the company. Consensus on the key risks, mitigation strategies and associated operational action plans have been developed, and will continue to be updated and managed in the future.

As part of its mandate, RBH's Risk Management Committee is responsible for reporting to both RBH management and the Corporate Governance Committee of the Rothmans Inc. Board.

Tobacco Taxation > Tobacco products manufactured and sold in Canada are subject to significant sales and excise taxes and duties levied at the federal and provincial levels. Currently, these taxes can exceed 73% of the retail selling price of cigarette products sold in Canada, depending upon the jurisdiction. These taxes have increased since February 1994, when a tax rollback at the federal level and in certain provinces was instituted in order to address international smuggling of tobacco products into Canada. International smuggling was prevalent in the period of higher excise taxes prior to the rollback.

Effective April 6, 2001, the federal government, together with the five tax rollback provinces, introduced a tax increase of $4.00 per 200 carton of cigarettes. Tobacco taxes on fine cut products were increased as well. These increases were substantial in comparison to the more moderate increases since 1994. RBH is concerned that these increases could lead to increases in smuggling activity from foreign sources. There is clear evidence that international tobacco smuggling is on the rise, especially in countries such as the U.S.A. and U.K. where domestic prices have increased dramatically over a short period of time. For example, The Corporate Forensic Investigator, FIA International Research Ltd., reported in their September 2000 report that smuggled cigarettes represent 39 percent of the state of California's consumption. Several other jurisdictions in the U.S. are experiencing explosive growth in smuggling activity.

Anti-smoking lobby groups had recommended even more substantial increases than the $4.00 per carton imposed on April 6, 2001. RBH believes that past history in Canada and around the world has shown that excessive tax increases represent a flawed policy. RBH recommends that tobacco taxes be raised in regular, relatively modest steps. Governments should avoid major increases which might shock the market into a renewed round of smuggling. We are encouraged that governments are devoting more resources to monitor and control smuggling activity, and we hope that the recent increase in taxes will not prompt a surge in contraband.

"... taxes can exceed 73% of the retail selling price of cigarette products in Canada ..."

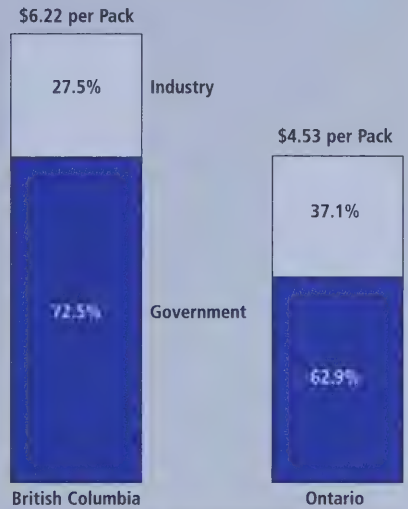
It is unfortunate that sound tax policy initiatives which may be contrary to anti-smoking groups' desires lead to compensating measures against the tobacco industry. This was the case at the time of the 1994 tax rollbacks, and it has occurred again. In particular, effective April 6, 2001 the discriminatory surtax imposed on tobacco manufacturer profits was increased. It is estimated that the surtax rate increase will boost RBH's effective income tax rate by 1.25 percent. Additionally, the federal government has introduced a new, onerous and complex regime covering export and duty-free sales.

Tobacco taxes vary considerably between tailor-made cigarette products and fine cut or loose tobacco products. Consumer demand for fine cut products including pre-portioned tobacco sticks is highly dependent upon the lower rates of excise taxes imposed on these products compared to cigarettes. Accordingly, any changes in government taxation policy which reduce the differences in taxation rates between these categories can adversely affect demand for fine cut and pre-portioned tobacco stick products.

Lower per unit tobacco taxes in the fine cut area provide a partial break from the highly regressive nature of tobacco taxes. With the exception of Québec, we were encouraged that most jurisdictions maintained lower taxes on fine cut tobacco products over the past year. However, on April 6, 2001 Québec significantly increased loose tobacco and tobacco stick tax rates relative to cigarettes.

Tobacco taxes comprise 62.9% of the consumer price of cigarettes in Ontario, 72.5% in British Columbia.

Cigarette Retail Prices
dollars per 25 pack, based on 200 carton



Following the tobacco tax increases implemented on April 6th 2001, a representative pack of cigarettes purchased in carton form retails for $4.53 in Ontario. Of this, federal and provincial taxes including sales taxes comprise $2.85, or 62.9% of the cost to the consumer. The remaining $1.68, slightly more than 37% of the total, is divided among all other industry partners including tobacco farmers, manufacturers, suppliers of materials and services, wholesalers, retailers, tobacco industry employees and providers of capital.

In high-tax provinces, governments' share of the purchase price is even larger. In British Columbia, for example, cigarettes cost $6.22 per pack, 37% higher than in Ontario. Taxes comprise $4.51, 72.5% of the retail price. Since manufacturers' prices to wholesalers are identical across Canada, the slightly larger industry amount in B.C. ($1.71 versus $1.68 in Ontario) represents higher wholesale and retail margins.

Taxes and therefore prices are highest in Newfoundland. In that province, taxes comprise 73.4% of the retail price of a pack of 25 cigarettes.

management's discussion and ANALYSIS

Despite the decreased tax differential between cigarettes and fine cut products in Québec, RBH anticipates that volumes will be maintained in this price sensitive market segment.

Regulatory Environment > Canada is one of the most regulated environments in the world for the sale and promotion of tobacco products. Restrictive legislation governing virtually all aspects of tobacco product sales and promotion has been imposed by federal, provincial and municipal governmental authorities in Canada. This legislation, which effectively prohibits the direct or indirect promotion of tobacco products, also mandates the display of health warnings on tobacco product packaging, severely restricts sponsorships by tobacco product manufacturers, and requires reporting of prescribed information concerning tobacco products and their ingredients and emissions.

Government legislation also restricts the display of tobacco products by retailers, requires tobacco retailers to post prescribed signage relating to tobacco products and restricts or prohibits smoking in the workplace and other environments.

Legislation enacted in British Columbia, although not yet proclaimed in force, requires licencing and payment of a licencing fee by tobacco manufacturers whose products are sold in the province. Legislation enacted in British Columbia and Ontario (and which is before the legislature in Newfoundland) purports to allow the provincial government in its own right to bring an action against tobacco product manufacturers for recovery of health care costs that allegedly have been, or will be, incurred by the province in respect of alleged smoking-related illnesses.

The federal legislation currently in force, the Tobacco Act, was enacted in April 1997 following a successful challenge (decided in 1995 by the Supreme Court of Canada) by the industry of the constitutional validity of many provisions of predecessor legislation, the Tobacco Products Control Act, enacted in 1989. The industry is currently challenging the constitutional validity of the Tobacco Act and, while this action is proceeding, legal arguments on the merits have yet to be heard by the courts.

The Government of Canada recently implemented new regulations under the Tobacco Act to further regulate tobacco products and tobacco product manufacturers. The Tobacco Products Information Regulations prescribe 16 new health warnings to be displayed on tobacco product packages and increase the area allocated to such health warnings to 50% of the principal display surface of most tobacco product packages. These

> *"Canada is one of the most regulated environments in the world for the sale and promotion of tobacco products."*

regulations also require tobacco product manufacturers to display additional information concerning the constituents and emissions from tobacco products on the sides of most tobacco product packages and to display prescribed health information messages on the inside of the packages or on a leaflet included in the package.

The recently enacted Tobacco Reporting Regulations significantly expand the reporting requirements for tobacco product manufacturers and require, for example, detailed reporting to Health Canada regarding the components and constituents of tobacco products and their emissions, sales and distribution of tobacco products and tobacco product accessories and research activities undertaken with respect to tobacco products. These regulations also impose additional reporting requirements for tobacco product manufacturers regarding permitted promotional and sponsorship activities.

Restrictive legislation and regulations enacted by all levels of government has proliferated in recent years and limits the ability of RBH to compete for market share, and adds significant costs to RBH's operations in terms of both increased expenses and reduced operating efficiencies. If RBH is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, RBH's sales and operating results will be adversely affected.

Litigation > Various legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising and marketing of tobacco products are pending, have been threatened or may be instituted against the Company and RBH. Since 1995, there has been an increase in the number of these claims, which include government actions for recovery of health care costs allegedly incurred in respect of smoking-related illnesses. Certain of these legal actions involve attempts by plaintiffs to proceed by way of class action, and punitive damages are specifically pleaded in a number of cases in addition to compensatory and other damages.

These claims remain at an early stage and involve complicated and novel questions of law that may take several years to resolve. The Company and RBH believe that they have good defences to these claims and intend to vigorously defend such claims and attempts to certify the class actions. Accordingly, the Company is unable to meaningfully estimate the amount or range of loss that might result from these claims. The scope of the purported class actions remain unclear however, and if the plaintiffs succeed in having any of the class actions certified, such actions could involve a large but indeterminate number of people, in some cases ranging in the millions. If successful, these claims, either individually or in the aggregate, could involve significant damages which would have a significant adverse effect on the financial condition of the Company, and the Company and RBH may not have the resources to satisfy such claims.

management's discussion and ANALYSIS

Further information concerning the claims affecting the Company and RBH is contained in note 13 to the Consolidated Financial Statements of the Company.

In addition to these claims, the Company is monitoring other legal proceedings affecting the industry. These claims include a class action currently proceeding against another Canadian tobacco product manufacturer for damages alleging that a tobacco product caused a fire resulting in injury and/or death of the plaintiffs and that the defendant was negligent in failing to sell a fire-safe cigarette.

Outlook > Looking ahead, Rothmans Inc. expects continued improvement in its financial performance and believes this will be based on:

- a relatively stable market for tobacco products in Canada,
- RBH's market leadership in the fine cut segment,
- RBH's efforts to stabilize its market share in cigarettes through innovative adult marketing programs focused on key brands,
- the potential for added revenues from RBH price increases,
- additional steps taken by RBH to further reduce costs with the resulting cumulative results of these efforts continuing into the future,
- the success of efforts by RBH and the industry to defend themselves from unconstitutional governmental and regulatory impairment of the right to conduct business in the legal tobacco industry, as well as from litigation.

"... Rothmans Inc. expects continued improvement in its financial performance ..."

QUARTERLY DATA

Quarter ended (in thousands of dollars)	Jun 30	Sep 30	Dec 31	Mar 31	Total for the Year
SALES (net of excise duty and taxes)					
2000 - 2001	$ 137,815	$ 136,307	$ 134,835	$ 129,279	$ 538,236
1999 - 2000	$ 138,475	$ 137,408	$ 135,433	$ 121,903	$ 533,219
EARNINGS					
2000 - 2001	$ 17,972	$ 17,878	$ 18,949	$ 16,665	$ 71,464
1999 - 2000	$ 17,203	$ 15,775	$ 17,431	$ 13,048	$ 63,457
EARNINGS PER COMMON SHARE					
2000 - 2001	$ 0.54	$ 0.54	$ 0.57	$ 0.51	$ 2.16
1999 - 2000	$ 0.52	$ 0.48	$ 0.53	$ 0.39	$ 1.92

management REPORT

The consolidated financial statements of Rothmans Inc. and its subsidiary companies have been prepared by management and are in accordance with generally accepted accounting principles in Canada. The significant accounting policies are outlined in note 1. All other financial and operating information in the annual report is consistent with that contained in the consolidated financial statements.

Management is responsible for maintaining a system of internal accounting controls which provides reasonable assurance that assets are safeguarded and that reliable financial information is produced. Management believes that existing internal controls are appropriate in terms of cost and risk to meet these objectives. Internal auditors employed by the Company and its subsidiaries monitor accounting records and related systems.

PricewaterhouseCoopers LLP were appointed by the shareholders at the 2000 annual meeting as independent auditors to examine and report on the Company's consolidated financial statements and their report appears on this page. As part of their examination, PricewaterhouseCoopers LLP reviewed internal control systems to the extent deemed necessary to support their opinion on such consolidated financial statements.

The Company's Board of Directors has overall responsibility for and has approved the consolidated financial statements and all other information in the annual report. The Board has appointed an Audit Committee consisting of five directors to review the audited consolidated financial statements prior to their submission to the full Board. The Committee also meets periodically throughout the year with Company officials, internal auditors and PricewaterhouseCoopers LLP.

President and Chief Executive Officer
May 11, 2001

auditors' REPORT

To The Shareholders of Rothmans Inc.

We have audited the consolidated balance sheets of Rothmans Inc. as at March 31, 2001, 2000 and 1999 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2001, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
April 27, 2001

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended March 31 (in thousands of dollars, except per share data)		**2001**	2000	1999
EARNINGS	Revenues:			
	Sales, net of excise duty and taxes	**$ 538,236**	$ 533,219	$ 532,883
	Investment income	**3,639**	1,732	2,378
	Total revenues	**541,875**	534,951	535,261
	Costs:			
	Operating Costs	**336,736**	348,274	347,886
	Interest (income) expense (note 6)	**(345)**	197	(518)
	Total costs	**336,391**	348,471	347,368
	Earnings before income taxes and minority interest	**205,484**	186,480	187,893
	Income taxes (note 11)	**86,650**	80,361	80,520
	Earnings before minority interest	**118,834**	106,119	107,373
	Minority interest	**47,370**	42,662	42,818
	Earnings for the year	**$ 71,464**	$ 63,457	$ 64,555
	Earnings per common share	**$ 2.16**	$ 1.92	$ 1.95
RETAINED EARNINGS	Balance at beginning of year, as previously reported	**$ 139,954**	$ 109,561	$ 171,752
	Increase to retained earnings as a result of implementation of new accounting rule (note 2)	**880**	-	-
	Balance at beginning of year, as restated	**140,834**	109,561	171,752
	Earnings for the year	**71,464**	63,457	64,555
		212,298	173,018	236,307
	Dividends Paid:			
	Common Shares (2001 - $1.10 per share 2000 - $1.00, 1999 - $3.83)	**(36,371)**	(33,064)	(126,746)
	Balance at end of year	**$ 175,927**	$ 139,954	$ 109,561

CONSOLIDATED BALANCE SHEET

March 31 (in thousands of dollars)		**2001**	2000	1999
ASSETS	**Current Assets**			
	Cash and cash equivalents	**$ 96,502**	$ 56,748	$ 26,830
	Short-term investments	**–**	4,938	11,238
	Accounts receivable	**61,803**	52,053	41,918
	Inventories (note 4)	**172,943**	194,510	199,878
	Prepaid expenses	**2,595**	2,578	1,438
	Total current assets	**333,843**	310,827	281,302
	Capital assets (note 5)	**46,592**	48,933	46,527
	Future income taxes (note 11)	**8,857**	7,727	7,771
	Other assets	**13,947**	14,474	13,902
		$ 403,239	$ 381,961	$ 349,502
LIABILITIES	**Current Liabilities**			
	Bank indebtedness (note 6)	**$ 30,355**	$ 49,238	$ 55,606
	Accounts payable and accrued liabilities	**35,206**	36,510	42,520
	Excise and other taxes payable	**18,630**	15,981	16,175
	Income taxes payable	**24,960**	24,177	9,440
	Total current liabilities	**109,151**	125,906	123,741
	Other employee future benefits (note 10)	**20,744**	17,743	15,976
	Minority interest in subsidiary company	**70,068**	71,009	72,875
		199,963	214,658	212,592
SHAREHOLDERS' EQUITY	Capital stock (notes 7 & 8)	**27,349**	27,349	27,349
	Retained earnings	**175,927**	139,954	109,561
	Total shareholders' equity	**203,276**	167,303	136,910
		$ 403,239	$ 381,961	$ 349,502

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended March 31 (in thousands of dollars)		**2001**	2000	1999
Cash provided by (used in):				
OPERATING ACTIVITIES	Earnings for the year	**$ 71,464**	$ 63,457	$ 64,555
	Adjusted for non-cash items-			
	Amortization	**9,039**	5,604	5,731
	Minority interest	**47,370**	42,662	42,818
	Future income taxes (recovery)	**(250)**	44	6,175
	Loss (gain) on disposal of capital assets	**112**	37	(403)
	Other employee future benefits	**3,001**	1,767	1,154
		130,736	113,571	120,030
	Net decrease in non-cash operating working capital	**18,866**	8,926	4,830
		149,602	122,497	124,860
INVESTING ACTIVITIES	Proceeds on sale of capital assets	**35**	35	482
	Additions to capital assets	**(6,845)**	(8,082)	(15,323)
	Decrease (increase) in other assets	**527**	(572)	(12,836)
		(6,283)	(8,619)	(27,677)
FINANCING ACTIVITIES	Dividends-			
	By the Company	**(36,371)**	(33,064)	(126,746)
	By a subsidiary company to minority shareholder	**(48,311)**	(44,528)	(39,885)
	(Repayment) proceeds of short-term borrowing	**(18,883)**	(6,368)	22,276
		(103,565)	(83,960)	(144,355)
	Increase (decrease) in cash and cash equivalents	**39,754**	29,918	(47,172)
	Cash and cash equivalents at beginning of year	**56,748**	26,830	74,002
	Cash and cash equivalents at end of year	**$ 96,502**	$ 56,748	$ 26,830
SUPPLEMENTARY DISCLOSURES	Income taxes paid	**$ 85,585**	$ 65,855	$ 88,269
	Interest paid	**520**	787	456

consolidated FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars)

1. Summary of Significant Accounting Policies > The consolidated financial statements of Rothmans Inc. (the "Company") are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada.

a) **Principles of Consolidation >** The consolidated financial statements include the accounts of the Company and all subsidiaries including its 60% owned subsidiary, Rothmans, Benson & Hedges Inc. ("RBH").

b) **Use of Estimates >** The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results could differ from these estimates.

c) **Inventories >** Inventories are stated at the lower of cost and net realizable value.

d) **Capital Assets >** Capital assets are recorded at cost. Amortization is provided on a straight-line basis over the estimated service lives of the assets, which are as follows for the principal asset categories:

Land improvements	- 10 years
Buildings	- 30 years
Machinery and equipment	- 3 to 10 years
Motor vehicles	- 5 years
Leasehold improvements	- term of lease; not to exceed 10 years

e) **Employee Future Benefits >** The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected benefit method pro-rated on service, and is charged to expense as services are rendered. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the net pension asset are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups, using the corridor approach. Defined benefit pension plan assets are recorded at market values. The cost of post-employment benefits other than pensions is recognized on an accrual basis over the working lives of employees. The Company adopted the new Canadian accounting standard for employee future benefits effective April 1, 2000 (note 2).

f) **Future Income Taxes >** Effective with the fiscal year commencing on April 1, 2000, the Company adopted, on a retroactive basis without restatement of prior years' financial statements, the new provisions of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3465 "Income Taxes", as described in note 2 – Change in Accounting Policies. Future income tax assets and liabilities are recorded on the difference between the accounting carrying values of balance sheet assets and liabilities and the tax cost basis of these assets and liabilities based on substantively enacted tax laws and rates.

The Company reviews the value of its future income tax assets and liabilities quarterly and records adjustments, as necessary, to reflect the realizable amounts of its future income tax assets and

liabilities. The Company expects that it will realize its future income tax assets and liabilities in the normal course of operations.

Prior to fiscal 2001, the Company followed the tax deferral method of accounting for income taxes that related the provision for income taxes to the accounting income for the period. Differences between such taxes and taxes currently payable were reflected in the financial statements and arose because certain items of revenue and expense were reported in the financial statements at different times than were reported for income tax purposes.

g) **Marketing >** Marketing costs, including those related to the introduction of new brands, are charged against earnings during the year in which they are incurred.

h) **Earnings Per Common Share >** Earnings per common share is calculated based on the weighted average number of shares outstanding during the year (note 7).

i) **Stock Based Compensation Plans >** The Company has stock based compensation plans as described in note 8. No compensation expense is recognized when stock options are issued to employees. Consideration paid by employees on exercise of stock options is credited to share capital when the options are exercised. The Company's contributions under the employee share purchase plan are charged to earnings as purchases are made.

2. Changes in Accounting Policies > Effective with the fiscal year commencing April 1, 2000, the Company adopted, on a prospective basis, the provisions of the new CICA Handbook Section 3461 "Employee Future Benefits". Implementation of the new accounting rules relating to employee future benefits, in addition to other prescribed changes, resulted in a change in the discount rate used to determine the accrued pension benefit obligation to a rate based on the market rates for long-term debt instruments, which is lower than the rate previously used by the Company. The Company will account for the impact of these changes on a prospective basis, over the average service life of the employees in each of the plans. The impact of this change in fiscal 2001 was not significant to the financial statements of the Company.

Effective with the fiscal year commencing April 1, 2000, the Company adopted, on a retroactive basis without restatement, the provisions of the CICA Handbook Section 3465 "Income Taxes". Future income taxes are recorded on the differences between the accounting carrying value of balance sheet assets and liabilities and the tax cost basis of these assets and liabilities.

The required implementation of these new accounting rules relating to income taxes resulted in an increase to future income taxes and retained earnings of $880,000.

3. Amalgamation > On January 17, 2000, the shareholders of the Company approved the amalgamation of the Company with Rothmans Partnership in Industry Canada Limited and Rothmans of Canada Limited, the companies in which British American Tobacco's (BAT) 71.2% common share interest in the

Company was held. The amalgamation completed the consolidation of the two Canadian holding companies with the Company in preparation for the sale of BAT's interest. The assets and liabilities of these holding companies were not significant, apart from their interest in the Company. The impact of the amalgamation was not material to the financial statements of the Company.

4. Inventories

	2001	2000	1999
Leaf tobacco	**$ 85,920**	$ 90,167	$ 90,922
Finished goods	**66,319**	81,616	85,977
Packaging material and other	**20,704**	22,727	22,979
	$172,943	$194,510	$199,878

5. Capital Assets

Cost	**2001**	2000	1999
Land and land improvements	**$ 1,501**	$ 1,501	$ 1,490
Buildings	**21,279**	20,997	20,711
Machinery and equipment	**123,476**	119,216	113,633
Motor vehicles	**1,031**	1,009	1,074
Leasehold improvements	**3,200**	3,242	3,082
	150,487	145,965	139,990
Accumulated amortization	**103,895**	97,032	93,463
	$ 46,592	$ 48,933	$ 46,527

Accumulated amortization	**2001**	2000	1999
Land improvements	**$ 109**	$ 99	$ 90
Buildings	**11,197**	10,653	10,168
Machinery and equipment	**89,117**	82,483	79,376
Motor vehicles	**949**	900	1,054
Leasehold improvements	**2,523**	2,897	2,775
	$103,895	$ 97,032	$ 93,463

6. Bank and Other Short-Term Indebtedness

	2001	2000	1999
Bank indebtedness	**$ 30,355**	$ 49,238	$ 55,606

Interest income on bank and other short-term investments is net of related interest expense of $578,000 in 2001 and $469,000 in 1999. For 2000, interest expense is net of related interest income of $617,000.

7. Capital Stock

Authorized > An unlimited number of common shares.

Issued	**2001**	2000	1999
33,064,104 common shares	**$ 27,349**	$ 27,349	$ 27,349

On February 11, 2000, the Company completed the amalgamation (note 3) with the BAT Canadian holding companies and BAT completed the sale of its 71.2% interest in the Company through a public offering of the shares. In conjunction with the amalgamation, the shares were subdivided on a 6 for 1 basis. All share and per share disclosures have been restated in the financial statements to give retroactive effect to this subdivision of shares.

8. Stock Based Compensation Plans >

a) **Share Option Plan >** At the fiscal 2000 annual general meeting, the shareholders of the Company approved a share option plan for the purpose of advancing the interests of the Company through the motivation, attraction, and retention of employees and officers of the Company and RBH.

As at March 31, 2001 options covering 576,500 (March 31, 2000 - nil) common shares were outstanding with options covering 45,000 shares expiring in calendar 2005, and the balance in 2010. Exercise prices for these options range between $14.50 and $17 per share with a weighted average exercise price of $15.09 per share. At fiscal year end, options to acquire 535,500 shares had vested and were available to be exercised. No options were exercised or forfeited during fiscal 2001. Granted options vest in three equal amounts as the twenty-day average trading price of the Company's shares exceeds thresholds of 10%, 20%, and 30% above the option exercise price. In certain circumstances upon exercise, optionees are also entitled to receive an amount equal to the aggregate of all special dividends paid since the date of the option grant.

Under the current share option plan, as at March 31, 2001, 1,123,500 shares (March 31, 2000 - nil) were available for the granting of further options.

b) **Employee Share Purchase Plan >** An employee share purchase plan has been initiated in order to allow all employees of the Company and RBH to purchase shares of the Company. This plan allows employees to participate in the business, and better align their interest with those of the shareholders. The plan allows every employee the opportunity to contribute between 1% to 5% of their base salary towards the purchase of shares. The Company contributes 35% of each employee's contributions up to $1,500 per annum. As at March 31, 2001, a total of 46,700 shares of the Company had been purchased under this plan.

9. Financial Instruments > The Company uses foreign currency forward contracts to hedge the economic risk of certain foreign currency transactions. The Company follows a policy of not using financial instruments for speculative purposes and has procedures in place to monitor and control their use.

Due to their short-term maturities, the carrying value of the Company's investments, accounts receivable, accounts payable, excise and other taxes payable, and bank indebtedness approximates their estimated fair value.

10. Employee Future Benefits > The Company provides pension (including both defined benefit and contribution plans), post employment, and post retirement benefits which in aggregate are considered employee future benefits. Defined benefit pension obligations are funded with independent trustees in accordance with legal requirements. The table below provides plan information on the actuarially determined benefit obligation, the status of plan assets, the net benefit plan expense for the year, and the significant actuarial assumptions used to arrive at the net benefit obligation.

	2001	
	Defined Benefit Pensions	Other Benefits
Change in benefit obligation		
Benefit obligation at beginning of year	$87,562	$ 25,838
Current service cost	3,172	1,246
Interest cost	7,208	1,896
Plan amendments	6,994	-
Cost for retirement window adjustment	1,860	-
Actuarial loss	4,246	-
Benefits paid	(4,948)	(1,495)
Benefit obligation at end of year	106,094	27,485
Change in plan assets		
Fair value of plan assets at beginning of year	121,653	2,117
Return on plan assets	15,913	162
Net employer contributions	2,678	775
Benefits paid	(4,948)	(1,495)
Fair value of plan assets at end of year	135,296	1,559
Plan status		
Funded surplus (deficit)	29,202	(25,926)
Unrecognized (gain) loss	(17,216)	5,182
Prepaid (accrued) benefit cost	$ 11,986	$(20,744)
Weighted-average assumptions as of March 31, 2001		
Discount rate	7.25%	7.25%
Expected return on plan assets	8.00%	7.50%
Rate of compensation increase	5.00%	5.00%

The health care cost trend rates used were 9.5% for medical, which is graded down to 4.5% per year after 5 years.

The Company's defined benefit pension plan expense is as follows:

	2001	
	Defined Benefit Pensions	Other Benefits
Current service cost	$ 3,172	$ 1,246
Interest cost	7,208	1,896
Expected return on plan assets	(9,121)	(162)
Amortization of plan (gains) losses	(818)	796
Cost for retirement window adjustment	1,860	–
	$ 2,301	$ 3,776

The company's defined contribution pension plan expense for the fiscal year 2001 was $2,921.

As at March 31, 2001, approximately 56% of all pension plan assets were invested in equities, 41% in fixed income securities, and 3% in cash and cash equivalents.

As at March 31, 2000 the actuarial present value of accrued defined benefit pensions was estimated to be $87,562,000. The market value of the defined benefits fund assets was approximately $121,653,000.

11. Income Taxes > The consolidated effective income tax rate is made up as follows:

	2001 %	2000 %	1999 %
Combined federal and provincial basic-rates	**40.4**	40.9	41.0
Manufacturing and processing tax credits	**(4.6)**	(5.1)	(5.2)
Surtaxes and other	**6.4**	7.4	7.2
Non-taxable dividends	**-**	(0.1)	(0.1)
Effective income tax rate	**42.2**	43.1	42.9

Future income tax assets and liabilities are recognized on temporary differences between the financial and tax bases of existing assets and liabilities as follows:

	2001
Future income tax assets:	
Property, plant and equipment	**$ 2,738**
Other Employee future benefits	**7,650**
Other	**3,278**
	$13,666
Future income tax liabilities:	
Pension asset	**4,809**
Net future income tax asset	**$ 8,857**

12. Commitments > In the normal course of business, the Company and its subsidiaries have commitments in respect of capital expenditures, purchase of tobacco and sponsorship obligations.

Commitments under operating lease obligations relate to fleet automobiles, warehouses and offices. The following table summarizes the minimum lease payments due after March 31, 2001:

Year ending –	
2002	$ 4,692
2003	4,455
2004	4,337
2005	3,347
2006	295
Years subsequent to 2006	88
	$17,214

13. Litigation, Claims and Contingencies > The Company and RBH are subject to a number of claims and potential claims as described below:

• On January 13, 1995, an action was commenced in the Ontario Superior Court of Justice against RBH, Imperial Tobacco Limited and JTI-Macdonald Corp. by originally three – and now four – individual plaintiffs who are seeking to certify the action as a class action. The plaintiffs claim, on their own behalf and on behalf of each potential class member, damages in the amount of $1,000,000 in addition to aggravated, punitive and exemplary damages and a mandatory order for the creation and funding of nicotine addiction rehabilitation centres for those allegedly addicted to nicotine.

• On May 1, 1997, a statement of claim was issued against RBH and Imperial Tobacco Limited by a single plaintiff, Mirjana Spasic, in the Ontario Superior Court of Justice claiming damages in the amount of $1,000,000, reimbursement for moneys expended on the purchase of the defendants' cigarette products and aggravated, punitive and exemplary damages. The claim is based upon allegations of negligent and intentional acts, spoliation, negligent misrepresentation, deceit, conspiracy, product liability and breaches of express and implied warranty.

• On September 3, 1998, a motion was filed in Québec Superior Court seeking court authorization to institute a class action against RBH, Imperial Tobacco Limited and JTI-Macdonald Corp. The claimants claim to represent a class consisting of all persons residing in Québec who are or have been addicted to the nicotine contained in cigarettes manufactured by the respondents, as well as the legal heirs of the persons included in the group but deceased. In addition to seeking an order certifying the action as a class action, the claimants are seeking on behalf of themselves and each class member $5,000 in exemplary damages and general damages to be assessed.

• On November 18, 1998, the Québec Council of Smoking and Health filed a motion in the Québec Superior Court seeking court authorization to institute a class action against RBH, Imperial Tobacco Limited and JTI-Macdonald Corp. on behalf

of all persons who have allegedly suffered certain diseases as a result of smoking cigarettes manufactured by the respondents. The claims are based on allegations of failure to warn, addiction, nicotine manipulation, advertising directed at young people, false advertising and inadequate warnings. The claimant is seeking unspecified general and exemplary damages and the establishment of a fund with the object of limiting cigarette consumption, supporting medical research into tobacco linked illnesses and reimbursing the Province of Québec for certain health care costs incurred by it in treating these illnesses.

• In January 2000, the Province of Ontario enacted the Ministry of Health and Long-Term Care Statute Law Amendment Act, 1999 which purports to permit the Province in its own right, to directly bring an action to recover health care costs that have been, or will be, incurred by the Province as a result of the negligence or wrongful act or omission of any person.

On March 2, 2000, the Province of Ontario initiated a claim naming numerous Canadian, U.S. and international tobacco product manufacturers and related companies including RBH and the Company as defendants.

The lawsuit, which was reportedly brought to recover an estimated $40 billion, was commenced in the United States Federal court under the United States Racketeer Influenced and Corrupt Organizations Act and is based upon alleged misrepresentations made by the defendants in respects of the hazards of tobacco products. The action seeks to recover unspecified treble damages for injuries incurred by the Province of Ontario including tobacco related health care costs and claims all profits of the defendants realized from their operations in Ontario. This lawsuit was struck out on jurisdictional grounds, however that decision is currently under appeal.

• On January 24, 2001, the Province of British Columbia initiated a lawsuit in the Supreme Court of British Columbia against RBH, the Company and numerous other Canadian and international tobacco companies and various tobacco trade associations seeking unspecified damages in an amount to cover the costs that allegedly have been, or will be, incurred by the Government of British Columbia in providing health care benefits to British Columbia residents who have allegedly suffered smoking-related illnesses. The action was brought pursuant to the Tobacco Damages and Health Care Costs Recovery Act (British Columbia), which purports to facilitate individuals and the provincial government in suing tobacco manufacturers. This legislation was enacted in January 2001 following a successful challenge (decided in March 2000 by the Supreme Court of British Columbia) by the industry of similar predecessor legislation enacted in 1998. RBH and other tobacco manufacturers have challenged the constitutional validity of the new legislation.

• On December 21, 1999 the Government of Canada filed a lawsuit in the United States Federal Court against another Canadian tobacco products manufacturer and the Canadian Tobacco

Manufacturers Council ("CTMC") to recover unspecified actual and treble damages for lost taxes and enforcement costs allegedly suffered as a result of the illegal smuggling into Canada of tobacco products, punitive damages and to compel the defendants to disgorge the proceeds of such activities. This lawsuit was struck out on jurisdictional grounds, however that decision is currently under appeal.

The CTMC is a non-share capital corporation incorporated under the laws of Canada, the members of which are the three major Canadian tobacco product manufacturers including RBH.

Such illegal smuggling is alleged to have commenced in the early 1990s, co-incident with the imposition by the federal and provincial governments of significant new taxes and duties on tobacco products. Such taxes and duties were, however, not imposed on tobacco products exported out of Canada. In February 1994, in an effort to curb the high level of smuggling of tobacco products into Canada, the federal and certain provincial governments reduced taxes to earlier levels. Exports of tobacco products by the major Canadian tobacco manufacturers increased significantly from 1991 to 1994.

Although no such actions have been commenced against the Company or RBH, the Government of Canada and other provincial governments may be considering commencing actions similar to this claim or other proceedings against other tobacco products manufacturers. The federal Minister of Justice previously stated that if the Government of Canada believes that it has sufficient evidence to move against any other company it will do so.

The Company and RBH deny the allegations in the claims, pending and threatened, and intend to vigorously defend the actions. All of these claims remain at an early stage and an estimate of the loss which might be suffered, if any, cannot be determined.

ten-year REVIEW

Year ended March 31 (in thousands of dollars)	**2001**	2000	1999	1998
Operations				
Sales, net of excise duty and taxes	**$ 538,236**	$ 533,219	$ 532,883	$ 522,063
Earnings-				
Before minority interest	**$ 118,834**	$ 106,119	$ 107,373	$ 111,996
Minority interest	**47,370**	42,662	42,818	44,432
Earnings for the year	**$ 71,464**	$ 63,457	$ 64,555	$ 67,564
Additions to capital assets	**$ 6,845**	$ 8,082	$ 15,323	$ 5,097
Amortization of capital assets	**9,039**	5,604	5,731	6,464
Interest income (expense)	**345**	(197)	518	836
Dividends paid-				
Preferred	**-**	-	-	-
Common	**36,371**	33,064	126,746	33,064
Financial position at year-end				
Working capital	**$ 224,692**	$ 184,921	$ 157,561	$ 217,017
Capital assets, net	**46,592**	48,933	46,527	37,014
Total assets	**403,239**	381,961	349,502	392,887
Shareholders' equity	**203,276**	167,303	136,910	199,101
Per common share				
Earnings	**$ 2.16**	$ 1.92	$ 1.95	$ 2.04
Dividends paid	**1.10**	1.00	3.83*	1.00
Shareholders' equity	**6.15**	5.06	4.14	6.02
Ratios				
Return on average total capital employed (%)	**55.9**	49.4	57.2	59.1
Return on average shareholders' equity (%)	**38.6**	41.7	38.4	37.2
Working capital ratio	**3.1**	2.5	2.3	2.8

*Includes a special dividend -
$2.83 per share in 1998/99;
$1.33 per share in 1995/96;
$3.00 per share in 1993/94;
$2.67 per share in 1990/91.

TEN-YEAR FINANCIAL REVIEW

1997	1996	1995	1994	1993	1992
$ 518,647	$ 485,891	$ 459,534	$ 456,059	$ 468,212	$ 444,524
$ 100,773	$ 95,890	$ 100,771	$ 96,458	$ 91,335	$ 81,248
40,158	38,129	40,070	37,804	36,008	31,943
$ 60,615	$ 57,761	$ 60,701	$ 58,654	$ 55,327	$ 49,305
$ 7,604	$ 7,044	$ 5,100	$ 5,393	$ 6,295	$ 5,828
6,209	6,185	6,505	8,261	8,135	7,058
803	1,453	1,539	1,483	344	(577)
-	-	-	-	-	1,556
33,064	74,394	22,043	121,235	22,043	20,390
$ 181,003	$ 153,935	$ 171,506	$ 116,665	$ 192,811	$ 160,021
38,497	37,187	36,451	37,915	43,718	44,161
371,614	320,091	347,609	372,452	406,358	390,230
164,601	137,050	153,683	115,025	177,606	144,322
$ 1.83	$ 1.75	$ 1.84	$ 1.77	$ 1.67	$ 1.44
1.00	2.25*	0.67	3.67*	0.67	0.62
4.98	4.15	4.65	3.48	5.37	4.37
55.4	50.1	66.1	50.6	40.0	32.0
40.2	39.7	45.2	40.0	34.4	34.7
2.3	2.4	2.4	1.6	2.3	2.0

board of DIRECTORS

JOE HEFFERNAN > Chairman Rothmans Inc. Mr. Heffernan served as CEO of the Corporation from 1990 to 1999 and more recently as Deputy CEO of Rothmans International until the completion of its merger with British American Tobacco p.l.c. in June, 1999. Mr. Heffernan is a director of Rothmans, Benson & Hedges Inc., Co-Steel Inc., and Clairvest Group Inc. He also serves as Vice Chairman of Co-Steel Inc. Elected to the Board in 1989.

JOHN R. BARNETT > President & Chief Executive Officer of Rothmans Inc. and subsidiary Rothmans, Benson & Hedges Inc. Mr. Barnett is a director of Toronto Port Authority and is President and director of ProAction. He also serves on the boards of Canadian Special Olympics Foundation and Sports Celebrities Festival. Elected to the board in 1999.

DOUGLAS G. BASSETT O.C., O.ONT. > Chairman Windward Investments. Mr. Bassett is a director of a number of Canadian corporations including Canadian Imperial Bank of Commerce and Mercedez-Benz Canada Inc. He is also director of the Canadian Council of Christians and Jews, the Council for Canadian Unity and the World Wildlife Fund Canada. Mr. Bassett was appointed an Officer of the Orde of Canada in 199 and the Order of Ontario in 1995. Elected to the Board in 1997.

ROBERT J. CAREW > Executive Vice President of Rothmans Inc. and Executive Vice President Corporate & Legal Affairs, Rothmans, Benson & Hedges Inc. Prior to joining Rothmans in 1999, Mr. Carew was a Partner with Smith Lyons, Barristers & Solicitors. Mr. Carew has served as a director of several companies. Elected to the Board in 1991.

RICHARD H. McCOY > Vice Chairman of TD Securities Inc. Mr. McCoy has held various senior positions in the securities industry since 1968. Mr. McCoy is a director of First Australia Prime Income Investment Company, ID Biomedical Corporation and a governor of the Shaw Festival. Elected to the board in July 2000.

PIERRE DES MARAIS II > President , Gestion PDM Inc. Mr. Des Marais is a director of Cognicase Inc., Imperial Oil Limited, St-Lawrence Cement, Sleeman Breweries Limited and Suzy Shier Limited. He is Chairman of the Board of the Corporation de l'Hôpital Maisonneuve-Rosemont and Fellow of the Royal Canadian Geographical Society. He is also a member of the Québec Advisory Board of The Nature Conservancy of Canada. Elected to the Board in 1987.

THE HON. PAULE GAUTHIER P.C. O.C. Q.C. > Senior partner of the law firm of Desjardins Ducharme Stein Monast. Madame Gauthier is a director of the Royal Bank of Canada, Royal Trust Corporation of Canada, Metro Inc. and the Advisory Board of IBM Canada Ltd. She is also Chairman of the Security Intelligence Review Committee of Canada and serves on the Board of Governors of Royal Military College of Canada. Madame Gauthier was appointed a member of the Queen's Privy Council for Canada in 1984, Queen's Counsel in 1988 and Officer of the Order of Canada in 1990. Elected to the Board in 1998.

PIERRE GRAVELLE > Consultant with Pierre Gravelle and Associates. Mr. Gravelle sits on the Dean's Advisory Council, Faculty of Administration of the University of Ottawa and is a Governor of the Canadian Council on National Unity. He served as a member of the Board of Governors of the University of Ottawa, the Canadian Centre for Management Development and the Institute for Research on Public Policy. He was appointed Queen's Counsel in 1981. Elected to the Board in 1998.

ALAN M. HODGE > Executive Vice President, Foster's Brewing Group Canada Inc. Mr. Hodge has held a number of senior positions in the brewing industry since joining Carling O'Keefe in 1977. He remained with Foster's following the sale of Carling O'Keefe in 1998 and serves on the boards of a number of Foster's affiliated companies. Elected to the Board in 1999.

COMMITTEES OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE
Pierre Des Marais II (Chairman)
Douglas G. Bassett
The Hon. Paule Gauthier, P.C.
Pierre Gravelle
Alan M. Hodge

CORPORATE GOVERNANCE COMMITTEE
The Hon. Paule Gauthier, P.C. (Chairman)
Douglas G. Bassett
Pierre Des Marais II
Pierre Gravelle
Alan M. Hodge
Richard H. McCoy

PENSION & COMPENSATION COMMITTEE
Douglas G. Bassett (Chairman)
The Hon. Paule Gauthier, P.C.
Alan. M. Hodge
Richard H. McCoy

corporate GOVERNANCE

The Company's Board of Directors is ultimately responsible for supervising the management of the business and affairs of the Company and monitoring the Company's investment in Rothmans, Benson & Hedges Inc. The Board has adopted written terms of reference in order to provide guidance to the directors in performing their duties and exercising their responsibilities. The Board of Directors discharges its responsibilities directly and through its committees.

The Company has three permanent committees: the Audit Committee, the Pension and Compensation Committee and the Corporate Governance Committee.

The Audit Committee is composed of the following five directors:

Pierre Des Marais II (Chairman)
Douglas G. Bassett
The Hon. Paule Gauthier, P.C.
Pierre Gravelle
Alan M. Hodge

The Pension and Compensation Committee is composed of the following four directors:

Douglas G. Bassett (Chairman)
The Hon. Paule Gauthier, P.C.
Alan M. Hodge
Richard H. McCoy

CORPORATE GOVERNANCE

The Corporate Governance Committee is composed of the following six directors:

The Hon. Paule Gauthier, P.C. (Chairman)
Douglas G. Bassett
Pierre Des Marais II
Alan M. Hodge
Pierre Gravelle
Richard H. McCoy

The Chairman of the Board is an ex-officio member of all Board committees. All of the members of each of the committees are considered to be "outside" (non-management) and "unrelated" directors of the Company. The Board has adopted written terms of reference for each committee in order to provide parameters within which each committee shall operate in order to assist the Board with its responsibilities. The terms of reference are intended to provide guidance to the members of the committees in performing their duties and exercising their responsibilities.

In 1995, The Toronto Stock Exchange adopted fourteen guidelines for effective corporate governance addressing matters such as the constitution of and functions to be performed by the Board of Directors and its committees. The TSE requires that each listed company disclose its approach to corporate governance with reference to these guidelines on an annual basis. A detailed analysis of the Company's compliance with the TSE guidelines and additional information regarding the Board of Directors and its committees is included in the 2001 Management Proxy Circular.

shareholder INFORMATION

Corporate Office
Rothmans Inc.
1500 Don Mills Road
Toronto, Ontario
M3B 3L1

Stock Exchange
The Company's common shares trade on the Toronto Stock Exchange under the stock symbol ROC.

Annual Meeting
The annual meeting of shareholders will be held at 11:00 a.m. local time on Thursday, July 19, 2001 at:
The Westin Prince Hotel
900 York Mills Road
Toronto, Ontario

Transfer Agent and Registrar
Questions relating to share certificates, dividends and estate settlements should be directed to:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Telephone: (416) 643-5500 or
toll free 1-800-387-0825
Fax: (416) 643-5501
Website: www.cibcmellon.ca
Email: enquiries@cibcmellon.ca

Auditors
PricewaterhouseCoopers LLP
Toronto, Ontario
M5H 1V8

Legal Counsel
Smith Lyons LLP
Toronto, Ontario
M5H 2Z7

Bankers
The Bank of Montreal
Toronto, Ontario

Reporting Calendar
The Corporation's year end is March 31. The annual report is mailed in June, and quarterly results are mailed in August, November, and February.

Dividend Payment Dates
Quarterly; in the months of March, June, September and December.

Investor Relations
Paul Jewer
Vice President Finance and Chief Financial Officer
(416) 442-3483

Investor Website
www.rothmansinc.ca

Annual Reports
Brenda J. Moher
Assistant Secretary
(416) 442-3676
Rapport annuel aussi disponible en français

Rothmans, Benson & Hedges Inc. Sales Regions
Western, Central, and Eastern Canada

Corporate Office
Toronto, Ontario

Plant Locations
Québec City, Québec
Brampton, Ontario

Sales Locations:
Vancouver, British Columbia
Calgary, Alberta
Edmonton, Alberta
Saskatoon, Saskatchewan
Winnipeg, Manitoba
Toronto, Ontario
London, Ontario
Montreal, Québec
Sainte-Foy, Québec
Dartmouth, Nova Scotia
St. John's, Newfoundland

Rothmans Inc. Officers

John R. Barnett
President and Chief Executive Officer

Robert J. Carew
Executive Vice President

Paul Jewer
Vice President Finance & Chief Financial Officer

Dean J. Blain
Secretary

Brenda J. Moher
Assistant Secretary

Rothmans, Benson & Hedges Inc. Executive Management

John R. Barnett
President and Chief Executive Officer

Robert J. Carew
Executive Vice President Corporate & Legal Affairs

Warren H. Finlay
Vice President Operations, Leaf and Research & Development

Ronald F. Funk
Vice President Sales

Faryl Hausman
Vice President General Counsel

Paul Jewer
Vice President Finance and Administration

Jean-Pierre Suys
Vice President Human Resources & Industrial Relations

Franco A. Salituro
Vice President Marketing

Robert Verrall
General Manager Tobacco Products Division

Rothmans Inc.

ANNUAL REPORT

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